FINANCING PUBLIC SCHOOLS: ISSUES & OPTIONS

A Discussion Paper

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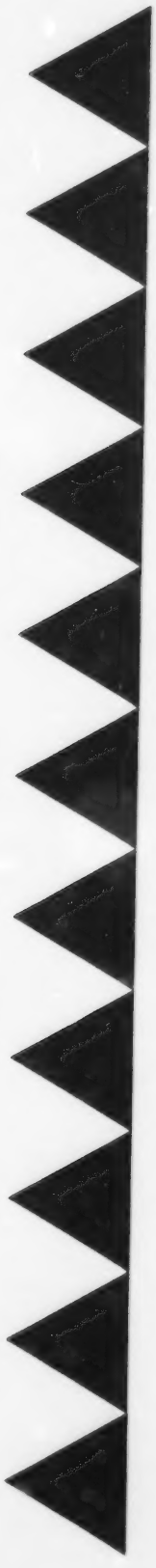

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INTRODUCTION

ONE

TERMS OF REFERENCE

On June 3, 1992, the Honourable Anita Hagen, Minister of Education and Minister Responsible for Multiculturalism and Human Rights, announced the creation of the Education Funding Review Panel.

The Panel's task is to review the system of financing education in B.C. and to make recommendations to the Minister on how to make the school finance system more accountable and affordable so that all parties involved in the delivery and financing of public education will view the system as fair, stable, predictable, and understandable.

The names of the four Panel members are listed in Appendix 1.

THE PURPOSE OF THIS DISCUSSION PAPER

This discussion paper outlines the issues in education financing and options for resolving them. The paper will be part of the process of public consultation. At the regional meetings it will provide a framework for discussion of the issues and options in education financing.

The paper is based in part on the more than 300 written submissions that the Panel has received since June. It also includes ideas and information supplied by the Advisory Committee and the Committee of Elected Officials. (Membership of these committees is listed in Appendix 1.)

An Advisory Committee consisting of 13 education partners met four times throughout the summer to provide advice to the Panel on issues, options, and areas of agreement. The Panel also met with a Committee of Elected Officials throughout the summer to obtain information and feedback on broad government policies and initiatives.

The paper begins with a description of the current finance system. The next two chapters outline the concerns expressed in written briefs and explain the role and characteristics of an education finance system. Chapters 5, 6 and 7 identify and discuss major issues in education finance. The final chapter indicates where there is general agreement and where further discussion is required. The final chapter also suggests various options for the areas that require further discussion.

This discussion paper does not cover all issues relevant to the discussion of education finance. For example, it does not deal with the issues of capital expenditures and tools for improving accountability. The Panel continues to work on these issues in order to include them in the final report.

THE SCOPE OF THE REVIEW

The review is looking at sources of revenue for school boards, the distribution of provincial education funds, and the roles and responsibilities of the provincial government and school boards as they relate to a finance system.

The Panel has assumed that there will be no changes in the method of governing public school education involving locally elected school boards. Throughout its deliberations, the Panel has operated on the

assumption that there will be no changes in the current structure and mechanisms for collective bargaining.

THE PROCESS

On June 9, 1992, ads appeared in all weekly and daily newspapers in B.C. asking for written briefs from interested parties. The Panel also wrote to over 2,000 organizations and individuals asking for submissions.

A series of seven regional meetings will be held from September 30 to October 19, 1992, to give the public and education partners in the regions an opportunity to speak with Panel members directly about the issues and options presented in this discussion paper. Meeting dates, locations and times are listed in Appendix 2.

After the regional meetings, the Panel will prepare a final report incorporating feedback from the public consultation process. The Panel will submit its final report and recommendations to the Minister of Education and Minister Responsible for Multiculturalism and Human Rights by November 16, 1992.

TO REGISTER YOUR INPUT

If you would like to attend one of the regional meetings, please pre-register by contacting the Education Funding Review Office in Victoria: Telephone, 953-3152; Fax, 953-3151.

If you cannot attend but would like to comment, please use the Response Form at the back and ***send your ideas to the Education Funding Review Office by October 20, 1992.***

HOW IS PUBLIC SCHOOL EDUCATION FINANCED IN B.C.?

TWO

ROLES AND RESPONSIBILITIES

Under the *School Act*, the provincial government and 75 locally elected school boards share responsibility for managing public schools. The province and school boards are co-governors of the school system.

The provincial government is responsible for:

- establishing the goals and objectives of the system.
- setting the common curriculum.
- monitoring and evaluating the performance of the school system.

School boards are responsible for:

- the day-to-day operation of schools.
- implementing the provincial curriculum and establishing the local curriculum.
- ensuring that school programs are sensitive to local interests and expectations.

Except for minor local sources of revenue, school boards get all of their operating and capital funding from the provincial government. School boards may seek additional revenue through a tax on residential property, but only if they receive the prior approval of taxpayers through a referendum.

School boards engage in collective bargaining with their staff, and school district employees have essentially the same collective bargaining rights as other organized employee groups in the province. The scope and timing of bargaining are subject to negotiation between the parties. Employees have the right to strike, and school boards have the right to lock out their employees.

Provincial legislation establishes the legal framework for collective bargaining in B.C., but the provincial government is not involved directly in bargaining with school district employees.

PROVINCIAL FUNDING

Operating Grants

During the process of preparing its annual budget the province allocates an amount of money for operating public schools in the coming school year. This amount is called the "block of funds."

After determining the size of the block of funds, the province then decides how those funds are to be distributed among the 75 school districts.

The size of the annual block of funds is equal to the amount provided in the previous school year, plus:

- an amount to take account of changes in enrolment.
- an "economic adjustment factor" to allow for cost increases.

- an amount to pay for adjustments to the provincially mandated education program.

The provincial government has complete discretion over the economic adjustment factor, which is expressed as a percentage increase over the previous year's budget. Because of competing demands on provincial revenues, the government may choose to increase school funding by a small percentage, even though costs may be increasing at a rate which exceeds the economic adjustment factor.

Table 2.1 shows the annual increases in operating grants since the introduction of block funding. It also shows the annual percentage increase in funding and the rate of increase allowed for economic adjustment. The annual percentage increase in operating grants is always larger than the economic adjustment factor because of additional increases for enrolment and changes in the provincially mandated program. Annual increases in enrolment have averaged 3.5 percent over the past few years.

For the 1992/93 school year the provincial government is providing just over $3 billion in operating grants to school districts. This represents an average of $5,661 for each pupil enrolled full-time in the public school system.

TABLE 2.1 **PROVINCIAL OPERATING GRANTS (BLOCK FUNDING)**

School Year	Operating Grants (million)	Percent Change	Economic Adjustment Factor
1989/90	$2,416.1		
1990/91	$2,675.5	10.7%	6.17%
1991/92	$2,903.3	8.5%	3.75%
1992/93 (est.)	$3,090.9	6.5%	2.40%

Debt Servicing Grants

To purchase major capital assets such as school buildings and school busses, school boards must obtain provincial approval. To pay for these capital expenses, school boards borrow money and repay it over a number of years (similar to a mortgage on a home). The province gives school boards grants to service these debts. The grants cover the annual payments on loans for capital expenses.

Table 2.2 shows the rapid increase in debt servicing grants over the past three years due to growth in the annual capital program from $250 million in 1989/90 to $582 million in 1992/93.

TABLE 2.2 DEBT SERVICE GRANTS

School Year	Debt Servicing Grants (million)	Percent Change
1989/90	$177.3	
1990/91	$204.0	15.1%
1991/92	$240.7	18.0%
1992/93 (est.)	$287.2	19.3%

SOURCES OF REVENUE

The provincial government uses three sources of revenue to pay for grants to public schools:

- general taxation (i.e., income taxes, sales taxes and resource taxes).
- non residential property taxes.
- residential property taxes.

When drawing up its annual budget, the provincial government decides how much it will need from each of these sources to pay for public schools. Table 2.3 shows the proportion from each source in 1992/93.

TABLE 2.3 SOURCES OF REVENUE - 1992/93

General Revenue	69.9%
Non residential Taxation	18.3%
Residential Taxation (after subtracting the home owner grant)	11.8%

Property taxes are calculated using the taxable value of property as set by the B.C. Assessment Authority. School property taxes are one of many types of property tax that may appear on a taxpayer's annual bill. Others include:

- municipal taxes.
- regional district taxes.
- improvement district taxes.
- library district taxes.
- transit taxes.
- hospital taxes.

Property tax notices distinguish between the school tax rate set by the provincial government and the school tax rate set through referenda by local school boards.

Home owners get property tax relief through the home owner grant. For 1992 the grant is a flat $450 for most home owners and $720 for seniors and disabled persons. Because the grant reduces the amount of school tax, the provincial government views the home owner grant as part of its contribution to school funding. However, if a person's home owner grant is more than the school tax, the taxpayer may use the excess to offset other property taxes.

The home owner grant cannot reduce the total of all property tax below $100 for seniors and $350 for all other taxpayers.

Although the provincial government sets the rate of the school property tax, there is not necessarily a connection between school property tax rates and provincial grants to school districts. An increase in the provincial budget for school funding may not be related to an increase in property taxes in a particular school district.

Everyone living within a particular school district pays the same rate of residential school tax, but the rate varies from district to district. By varying the rate, the government can moderate the effect of large differences in assessed value in different areas of the province.

If the residential school tax rate were the same throughout the province, people who live in a high assessment area such as the Lower Mainland would pay much higher taxes than people living in low assessment areas. The system of variable rates reduces the sharp contrast between the amount of tax people would pay in different areas, but it does not completely eliminate the disparities.

Even though the tax rate varies, someone living in an "average" home in Vancouver pays more in school taxes than someone living in an "average" home in Prince George because property is worth more in Vancouver. Table 2.4 illustrates this point by showing examples of the variation in school tax rates and school taxes paid across selected districts.

TABLE 2.4 **VARIATION IN PROVINCIAL SCHOOL TAXES ON RESIDENTIAL PROPERTY**

	Tax Rate $ per $,000	School Taxes * Paid on an "average" home
North Thompson	14.8	$450
Peace River North	10.8	482
Prince George	8.4	552
Kamloops	7.8	518
Central Okanagan	5.7	577
Coquitlam	4.7	750

*before subtracting the homeowner grant

Property taxes are raised on a calendar-year basis. However, the government does its budgeting on the basis of a fiscal year that runs from April 1 to March 31. This difference can make it difficult to interpret information about tax revenue from different sources.

Non residential tax rates are different for each class of property (major industry, light industry, farm, forest land, etc.) but are the same for each district.

DISTRIBUTION OF PROVINCIAL GRANTS

For a variety of reasons, the cost of delivering the provincially mandated education program varies from district to district. For example, sparsely populated rural districts usually have smaller schools and smaller class sizes than more densely populated urban districts. As a consequence, such districts tend to have higher than average instruction costs. To ensure equity of educational opportunity throughout the province, operating grants to school districts must reflect these differences in cost.

The distribution of provincial grants is based on a detailed set of calculations that has been labelled the "fiscal framework." The framework consists of a range of service levels and cost factors that together determine the cost of delivering the provincially mandated education program in each school district.

The method of calculation is best illustrated with an example. Table 2.5 shows how the funding of the early intermediate program is calculated. It starts with a level of service established by the provincial government: that is, the average number of students per class. In this example, the service level represents an average class size of 26 students. The funding of each class includes the average teacher salary, including benefits (such as extended health benefits) and statutory payments (such as pensions and unemployment insurance). In addition, an amount is provided to cover the cost of classroom supplies. With this formula, the cost of the provincially mandated education program will vary from district to district because the number of students enrolled is different and because average teacher salaries are not the same.

TABLE 2.5 **FUNDING THE EARLY INTERMEDIATE PROGRAM (Grades 4-7)**

Service Level

One teacher for every 26 students enrolled in the program (excluding students in special education programs).

Cost Factors

Funding of a class = average teacher salary + benefits + statutory costs + allowance for classroom supplies.

The fiscal framework encompasses more than 50 different services organized into five broad areas:

- instruction.
- district administration.
- operations and maintenance.
- transportation.
- other.

The funding of each service is calculated in more or less the same way as in the example of the early intermediate program, but for many services, the formula is more complicated. Table 2.6, for example, shows the service level of the English as a Second Language (ESL) Program, which is somewhat more complex than the service level in the earlier example. The service level for the ESL program acknowledges the need for smaller classes and the additional cost involved when teaching ESL students.

TABLE 2.6 **THE ELEMENTARY ESL SERVICE LEVEL**

(For English as a Second Language programs in primary to grade 7)

For the first 12 students: 1 teacher for every 12 students

For the remaining students: 1 teacher plus 0.5 teaching assistant for every 21 students

Differences in enrolment and average teacher salaries are important reasons for the differences in the cost of public education among various school districts.

Because teachers' salaries are based on experience and qualifications, average teacher salaries can vary considerably from district to district depending on the mix of teachers employed in the district. In some districts average teacher salaries are more than five percent above the provincial average because most of the teaching staff are more experienced, more highly qualified, and paid at a higher salary. Other districts have a large proportion of recent graduates on staff, and their average salary is well below the provincial average.

Other important differences among school districts include:

- ***age distribution.*** Districts with a high proportion of students in the secondary grades have higher costs because it is more expensive to provide the wide range of courses required at high school than the more limited curriculum in elementary school.
- ***number of special needs students.*** Districts with a higher proportion of special needs students, including aboriginal and English as a second language students, have higher costs. Because special needs students require more support than regular students, it takes more resources to meet their needs.

- ***number of schools in the district.*** Because of geography, some districts have a large number of relatively small schools with low enrolment and smaller than average class size. These districts have higher per pupil costs than more compact districts with larger schools.
- ***transportation.*** Rural districts tend to have higher school bussing costs than urban districts.
- ***building operations and maintenance.*** The cost of operating and maintaining school facilities varies with the age of buildings and the climate.

The fiscal framework attempts to take into account all of these differences and generates a recognized cost for each of the 75 school districts. The provincial government uses these recognized costs to calculate each district's share of the block of funds.

The result is wide differences in funding between districts. These differences are most obvious when expressed in terms of "funding per pupil." Table 2.7 illustrates the point by comparing the funding per pupil in two districts, Fort Nelson and Surrey. The figures are broken down into the five categories of funding used in the fiscal framework. In each category, the recognized costs in Fort Nelson are considerably higher than in Surrey. Fort Nelson is a low-enrolment district in a northern location of the province with a harsh climate, and with a high proportion of aboriginal students. By contrast, Surrey is a high enrolment district in a suburban location with a mild climate, and with an average proportion of special needs students.

TABLE 2.7 **COMPARISON OF FUNDING TO INDIVIDUAL SCHOOL DISTRICTS ($ PER PUPIL)**

	Surrey	Fort Nelson
Instruction	$4,117	$5,078
District Administration	113	414
Operations & Maintenance	629	925
Transportation	53	197
Other	124	174
TOTAL	$5,036	$6,788

Some districts receive special purpose grants in addition to the funds they receive on the basis of the fiscal framework. The districts that receive special purpose grants had higher than average local spending and taxation prior to the introduction of block funding, and the grants were started as a transition measure to allow these districts time to adjust to

block funding. Special purpose grants were supposed to end in 1992/93, but they were continued this year because of the difficult fiscal situation which many school boards faced.

The fiscal framework has determined the distribution of provincial grants for the last eight years. Each year a technical committee composed of district superintendents and secretary-treasurers has reviewed the structure of the framework and its various calculations. In most years, the Minister of Education has accepted many of the changes which the committee has recommended and implemented them in the following school year.

MANAGEMENT OF FUNDS

School boards prepare their budgets in the spring for the following school year (July to June), and they must complete their budgets by late April. Recognizing this deadline, the province announces the amount of the block of funds in January and detailed estimates of the grant for each school district in February.

Because the grants are announced in February, they are based on each district's projected enrolment for the next school year. In September, the actual enrolment is compared to the projected enrolment, and the district's grant is adjusted. This means that school boards must adjust their operations in September to reflect actual enrolment and actual grants from the province.

Within the constraints of the provincial curriculum and collective agreements with their staff, school boards can for the most part allocate their money in any way they deem appropriate. The province puts constraints on the use of some elements of the grant. For example, funds are targeted in a few areas such as school accreditation, textbooks and other learning resources, and minor capital projects. In 1991, further restrictions were placed on budget allocations for certain special education categories.

When a school board sets its budget, it may or may not know all the costs it will face in the coming school year. For example, if a collective agreement expires at the end of the current school year and a new one has not been negotiated, the new budget must allow for a possible increase in salaries. If the estimated increase is too low, the school board will have to adjust other costs to ensure that the total budget does not exceed the district's revenues for the year.

If they choose to, school boards may enter into multi-year collective agreements. However, they cannot know for sure how much money the provincial government will provide in future years.

School boards may not run deficits unless they have prior approval from the province. If they have a surplus of money at the end of the year, they may carry it forward to the next school year.

When the school year is over, each school board must prepare audited financial statements and submit a copy to the province.

Table 2.8 shows that school boards spend most of their money on staff salaries and benefits. Items other than staff costs account for only 11.2% of operating budgets.

TABLE 2.8 **SCHOOL DISTRICT BUDGETING ON SALARIES AND SUPPLIES**

Teacher Salaries	55.4%
Non-teaching Staff Salaries	18.9%
Substitute Staff Salaries	1.9%
Staff Benefits and Allowances	12.7%
Services and Supplies	11.2%
	100.0%

Table 2.9 shows how school boards allocate their budgets by function. It shows that almost 80% of funds are devoted to school-based instruction. The costs of operation and maintenance are the second largest spending item.

TABLE 2.9 **SCHOOL DISTRICT BUDGETING BY FUNCTION**

Instruction	79.2%
District Administration	4.0%
Operations and maintenance	13.0%
Transportation	2.5%
Other	2.3%
	100.0%

WHY IS SCHOOL FINANCE AN ISSUE?

THREE

The interested public has many concerns about the current system of financing public schools. The Panel has heard these concerns from people who have submitted written briefs and from the Advisory Committee. Although we recognize that we cannot do justice to all the concerns that have been expressed, we have attempted in this section to summarize the common themes that emerge from these comments.

A SYSTEM IN CONSTANT CHANGE

Over the past ten years, the only constant in education finance has been change. Every two or three years, the province has substantially redesigned the system. Table 3.1 gives some examples of the major changes since 1982.

TABLE 3.1 **EXAMPLES OF CHANGES IN THE SYSTEM OF SCHOOL FUNDING**

1982	Removal of the non residential tax base from school boards.
1982	Provincial limits on school budgets. Elimination of local taxing authority.
1984	Introduction of the fiscal framework.
1986/87	Return of taxing authority to school boards (residential taxes only).
1988/89	Full collective bargaining rights to teachers.
1990/91	Introduction of block funding. Taxing authority of school boards restricted to funds that can be raised by referenda.
1990/91	Introduction of the supplementary home owner grant.
1992/93	Elimination of the supplementary home owner grant.

All these changes were designed to improve the system, and many have been in response to earlier concerns expressed by the public and education partners. However, it is clear that many observers see the pace of change as counterproductive:

> *During the past few years there have been so many changes to the Block of funding and Targeted Funds that it not only is difficult to keep up with the multitude of changes but extremely difficult to try and explain them to the public and employees. Some stability is long overdue.*

Many observers are calling for a period of stability in school finance, and they point to some significant costs of change. These include:

- the time and effort involved in designing, understanding, and implementing the changes.
- the perception that there are "winners and losers" from each of the changes and the backlash which this creates.
- the fact that a change which solves one set of problems often introduces a new set of problems that no one anticipated.
- the fact that for the most part, the changes have been piece-meal.

Because most of the changes have been introduced gradually, the old system is always being phased-out rather than being replaced by something entirely different. This means that the system is constantly in a state of transition. It never settles down to the point where the players involved really know and understand its main features and can plan their future actions with some confidence.

A DEBATE OVER FUNDING LEVELS

For some observers, most of the concerns about education finance come down to one issue: the perception that education is underfunded, both in comparison to other provinces and in relationship to the public's expectations of the school system.

Others are less concerned with the overall funding level than with the perception that the present system of distributing the block of funds is unfair to some school districts. These observers point to differences between districts: some are hiring staff; others are experiencing lay-offs.

> *If the current funding system is equitable, then why can some school districts reach salary settlements well beyond the economic adjustment factor and many other districts can neither maintain the present service levels nor provide for any salary increases.*

A number of briefs have raised questions about the fairness of the distribution system. Their criticisms have spotlighted four areas of concern.

1. ***Transition funding has not been phased out on schedule.*** There has been a delay in the phasing-out of special purpose grants, and therefore some districts continue to receive funds above and beyond what they would be entitled to under the terms of the fiscal framework. Some observers see the continuation of special purpose grants as perpetuating inequities between districts. Others view the attempt to equalize the level of service in all school districts as reducing the quality of education in the province to "the lowest common denominator."
2. ***Similar districts have different funding levels.*** Districts that appear to have similar needs nevertheless receive different amounts of money. Under the present distribution system, school districts that seem to be on a par with one another may not be receiving equal amounts per pupil.

These disparities are difficult to understand unless you understand the nature of the differences between these districts. Table 3.2, for example, compares the funding level for Coquitlam and Greater Victoria, two urban districts with similar overall enrolment. Greater Victoria receives a higher level of funding primarily because it has a greater proportion of children with special needs and because its school buildings are older and more expensive to operate and maintain. However, there is debate about whether these differences are appropriately reflected in current funding levels.

3. ***Bias against rapidly growing districts.*** Some people believe that the present system works to the disadvantage of districts that are growing rapidly. These districts have indicated their concern with the fiscal framework. They believe it is biased against them in three ways.
   - It does not take into account the special costs that growing districts incur: e.g., the costs involved in planning new schools.
   - It assumes that there are "economies of scale" in the operation of school districts which do not exist in practice.
   - It does not reflect enrolment growth during the school year.

   Although the fiscal framework has been changed to address some of these issues, growing districts continue to voice their concern over the design of the framework.
4. ***Some districts have deficits while others have surpluses.*** Some districts appear to be having difficulty managing within their budgets this year while others do not, and this raises the question of possible inequities in the distribution system. However, school boards have considerable discretion over how they manage their financial affairs, and the observed differences may be attributable to the way in which they have planned for and adjusted to block funding, rather than to the distribution system.

TABLE 3.2 **COMPARISON OF SIMILAR DISTRICTS ($ PER PUPIL)**

	Coquitlam	Greater Victoria
Instruction	$4,206	$4,320
District Administration	119	122
Operations & Maintenance	620	765
Transportation	41	66
Other	132	173
TOTAL	$5,118	$5,446

In contrast to the concern about underfunding, some briefs have expressed concern about the escalating cost of the education system. These observers do not see the system as underfunded. Rather, they question whether school boards are making the most effective use of the money they have.

Some of those who would like to see the province put more money into education also question whether school boards are making the best use of their money. For example, some commentators have expressed concern about the proportion of their resources that school districts devote to administration compared to the proportion devoted to classroom instruction.

Many parents and taxpayers hear the debate over school funding but do not know whom to believe. This adds to their sense of confusion about the system:

> *School financing has become so complicated that only a handful of individuals can comprehend it. Therefore, when partner groups are asked to provide "meaningful input," we either throw up our hands and leave the decision-making to those with the knowledge or we make submissions requesting smaller class sizes, increasing the ratio of elementary counsellors, teacher librarians, etc. to students, more support for music programs, gifted education, and the list goes on.*

LOCAL AUTONOMY IS AN ISSUE

The present system of funding has largely prevented school boards from spending more than the province provides in grants. In some people's opinion, this lack of local control over revenue has severely limited the ability of school boards to respond to local issues and establish innovative education programs. One brief expressed the point this way:

> *Local community control over and interest in the operation of public schools is a cornerstone of our democratic system. The restoration of supplementary taxing powers would match districts' ability to develop and implement innovative local programs with an ability to raise funds in support of these programs. In addition to solidifying democratic control at the local board level, such an arrangement would return an important source of dynamism that fiscal centralization has robbed from our schools.*

Others question the role of school boards and their track record in the managing of public funds. A large number of briefs have said that parents should have more choice in the education system and more control of the use of funds.

A CONFUSING SYSTEM

One of the most common concerns about the current system is the fact that most people do not understand the way it works and what it is trying to achieve. And this sense of confusion is not limited to parents and taxpayers who have little direct involvement with the details of the

funding system. It extends to many of the school trustees, principals, and teachers who are heavily involved in delivering education.

Part of the confusion comes from the frequency with which the system has changed. A more stable system would be easier to understand. Some of the confusion comes from the inherent complications in a system of school funding that involves two levels of government. It is often hard to know who is responsible for a particular decision.

Another source of confusion is the "mixed messages" that the public receives about the funding of the school system. One brief described this confusion as follows:

> *Many British Columbians were puzzled this last spring to witness another round of school lay-offs and cutbacks despite the fact that the Education budget received the largest percentage increase allotted to any provincial ministry.*

Confusion also results from the complexity of many aspects of the system, including the fiscal framework distribution system and the methods of determining tax rates. Although the system is not always as confusing as it first appears, it is often not easy to get answers to questions, and the answers, when they are available, are not always clear and in language that is easy to understand.

DOUBTS ABOUT PROPERTY TAXATION

Many observers expressed concern over the way schools are funded. Most of these concerns focus on the use of property taxes to pay for schools:

> *The cost of education should not be borne in part by property owners. There simply is not a reasonable connection between a property owner or landlord and school.*

Some see little connection between property and education and believe that education should be funded from other revenue sources. Others focus on the issue of equity. They do not see a direct relationship between property values and ability to pay; they question the feasibility of designing a fair system around the property tax base.

Others accept the role of property taxes in funding education but are concerned that the burden of taxation has shifted from non residential to residential taxpayers.

AN UNSTABLE SYSTEM

During the last decade the school system has experienced sharp swings in funding and in levels of service. Periods of contraction and restraint have followed periods of rapid expansion. In the past few years, the number of teaching positions has expanded substantially in one year and declined substantially in the next.

Many observers question the necessity for this pattern. While accepting that we live and operate in an open economy, they see no reason why a key social service such as education should experience the "boom and bust" cycles of the international market place.

These ups and downs in service create disruption in the schools and sap the morale of teachers and others who are responsible for ensuring that the learning experience in our schools is of a high-quality. Looking at this past pattern, many observers are calling for greater stability and predictability in the funding system:

> *There needs to be a process that establishes long-term financial stability for the education system. Many of the reductions made this year are only a stop gap. If additional funds are not forthcoming next year, then other services will have to be reduced...There is not much incentive to plan new curriculum when you do not know if there will be adequate resources to implement them.*

OTHER ISSUES

Some briefs raised issues which are outside the scope of this review. For example, many expressed dissatisfaction with the funding of independent schools and the structure of collective bargaining within the public school system.

WHAT KIND OF FINANCE SYSTEM DO WE WANT?

FOUR

People hold a wide variety of opinions about the flaws in the present system of financing public education. The Panel has received a great many suggestions, often conflicting, for making improvements. Before examining some of these suggestions, we need to know what characteristics we want in a finance system. Unless we are clear about what we want to achieve, it will be hard to evaluate ideas for changing what we have.

This chapter examines the desirable characteristics of an education finance system and looks at some of the choices involved in designing a system that will do what we want it to do. This discussion sets the stage for an examination of specific policy options in subsequent chapters.

THE ROLE OF AN EDUCATION FINANCE SYSTEM

At its most basic level, education finance is concerned with a few, very straightforward questions.

- ***The spending of funds***. Who is responsible for spending the money? Who decides how much to spend and how to spend it?
- ***The raising of funds***. Where should the money come from to pay for public education?
- ***The distribution of funds***. What is the best way to distribute the money from the province among school districts?
- ***The management of funds***. How can the finance system provide incentives for the efficient and effective use of public funds? What are the mechanisms for holding the people or institutions that spend the money accountable for their decisions?

THE COMPLEXITIES OF THE PRESENT SYSTEM

On the surface these questions seem relatively uncomplicated. Why then is the financing of education such a contentious issue? Part of the answer lies in the inherent complexities of our school funding system.

- ***Shared Responsibilities***

  When two levels of government are involved in delivering the same service, people become confused about the roles and responsibilities of both governments, and it is then hard to hold either one accountable for its decisions.

  This problem is not unique to the school system. It is true for all situations involving more than one decision-making authority. However, the problem is more pronounced in education because the provincial government is heavily involved in defining and funding the service, but school boards are responsible for delivering it. In British Columbia, local governments at the municipal and regional levels have far more autonomy than school boards in regard to the services they provide, but they are able to fund the vast majority of

their costs through their own revenue sources, rather than through provincial grants.

- ***A Shared Tax Base***

  Confusion and tension are inevitable when several governments share the same tax base. In B.C. many levels of government share the property tax base: the province, school districts, municipalities, regional districts, and a number of others. As long as two or more governments are using the same tax base, taxpayers will have difficulty separating responsibility for tax increases, and the governments involved will come into conflict over the fair way to share a limited tax source.

- ***A Strong Emphasis on Equity***

  One of the overriding objectives of school funding is to help ensure equity of educational opportunity throughout the province. To achieve this objective, the finance system has to recognize a variety of local conditions that affect each school board's ability to deliver a common standard of service. This means that the finance system must go to great lengths to recognize and compensate for the large number of differences among districts. To do this, the system must inevitably become more complex than most other areas of government finance.

- ***High Visibility***

  The public school system receives much more attention than other areas of public policy because it touches the lives of so many people: students, parents, grandparents, employers, and taxpayers. We are all familiar with the subject because we have all attended school. Many other areas of public policy and finance receive far less public attention because they do not directly affect such a large cross-section of society.

For all of these reasons the design of a suitable school finance system is neither simple nor straightforward. It is important, therefore, to begin the task of sorting through the many alternatives by stating clearly the characteristics we would like to see embedded in an education finance system.

DESIRABLE CHARACTERISTICS OF AN EDUCATION FINANCE SYSTEM

We want to design an education finance system that has the following characteristics.

1. ***Understandable and Accountable***
   - Parents and taxpayers know who is responsible for decisions about raising money and spending it.
   - The relationship between taxation and spending is clear. (E.g., "Why did my school taxes go up by 20 percent this year?")
   - The link between changes in service (such as class size or number of teachers) and financial decisions by the various partners in the system is clear.
   - Disparities in funding between school districts have an obvious relationship to the differences in the characteristics of the districts.
   - The persons who use public funds have to report on how they used the money.
2. ***Stable and Predictable***
   - The "rules of the game" remain substantially unchanged from year to year, and if changes are necessary, people know about them well in advance.
   - Changes in service are moderate and even.
   - Planned changes in service (e.g., a new curriculum) proceed only if any funding required to implement the changes is also available.
   - School boards have a reasonable period in which to adjust to changes in funding or cost.
3. ***Fair***
   - Students throughout the province have access to a comparable level of educational service.
   - Taxpayers in similar circumstances pay similar levels of tax, and taxpayers with a greater ability to pay, pay more.
4. ***Adequate and Affordable***
   - The system provides sufficient funds to deliver the prescribed level of service.
   - The system does not create an unacceptable burden on taxpayers.
5. ***Flexible and Adaptable***
   - School boards have some flexibility in using funds to tailor programs to local conditions.
   - Both levels of government have the flexibility to make education better and more cost effective through innovative programs and strategies.

NO DESIGN WILL BE PERFECT: CHOICES HAVE TO BE MADE

No system will have all the characteristics we consider desirable. In creating a finance system, we have to choose between alternatives, and that often means sacrificing one desirable characteristic for another. For example, we may have to choose between fairness and local autonomy. Allowing school districts the discretion to provide special programs over and above the core program allows for innovation and excellence at the local level. This may result in "lighthouse" districts whose innovations in programming will "light the way" for other districts to follow. However, local discretion in programming also challenges the principle of equality of opportunity in education. The finance system must strike a balance between the conflicting objectives of fairness and autonomy, and people will always disagree about where to draw the line.

The design of a finance system cannot remove the necessity for difficult policy choices. For example, the amount of money the government allocates to education is a political decision that seeks to strike a balance between what is desirable and what is affordable. There is nothing inherent in the design of taxes and expenditures that can say how much we ought to spend. A well-designed finance system can help clarify policy issues, but it cannot remove the tension between those who would like to see more spending on education and those who would prefer to see other uses of public funds.

We know there is a strong demand to improve the system for financing education. But we cannot hope to avoid all debate or gain complete consensus on the design of a new system. There is no simple answer.

This paper lays out a range of alternatives for the public to consider, rather than a single option. The challenge is to identify those aspects of the system that are in most need of change and to develop as much consensus as possible around the most promising alternative.

ROLES AND RESPONSIBILITIES

FIVE

The provincial government and the 75 locally elected school boards are co-governors of the school system in British Columbia today. In this chapter we raise a number of issues concerning how the financial responsibilities are shared between the province and school boards and also between the province and parents.

There is a widespread agreement that all students in the province should have equal opportunity with respect to education, regardless of how much money they have or where they live. In practice, this means that all students should be guaranteed access to a core education program no matter how poor or wealthy their local school district may be. While it is generally understood that a core education program is one that provides an adequate or reasonable level of education, we appreciate that the issue of how to define the core is very difficult. One of the primary responsibilities of the provincial government is to define the core (with the assistance of the education partners) and to ensure equal access to the core program.

There is also general agreement among Advisory Committee members that school boards need to have some flexibility to respond to local conditions and local needs. Where school boards can provide special programs over and above the provincially recognized or core program, there is the potential for innovation and excellence at the local level.

The issues in this chapter relate to the balance between these conflicting objectives of equality of educational opportunity and local flexibility. There are three main issues that have come either out of the briefs submitted to the Panel or from meetings with the Advisory Committee.

Issues

A major issue in funding public education is the division of responsibilities between the province and local school boards. There seem to be three major questions concerning this issue.

- Who should fund the core education program?
- Who should pay for local programming?
- Should the province transfer education funds to parents directly instead of to school boards?

WHO SHOULD FUND THE CORE EDUCATION PROGRAM

Discussion

Two alternative approaches can be used to pay for the provincially recognized education program, which is often called the "core program" or "core":

- ***provincial funding of the core***. The province can pay 100 percent of the cost of the core program. This is the approach used in British Columbia and in some other provinces such as New Brunswick and Prince Edward Island.
- ***shared funding of the core***. The province and the school boards can share the cost of funding the core program. A shared funding approach was used in British Columbia before the introduction of block funding. It is also used in most other provinces including, for example, Ontario and Manitoba.

When the province funds the core program, the finance system is accountable and understandable. The public clearly understands who is accountable because the responsibility for deciding how much to spend rests with the same level of government as the responsibility for raising the funds. Provincial funding also means that the wealth of each individual school district does not affect the quality of the core program.

Shared funding of the core program represents a fundamentally different (and more traditional) approach to education funding. Under this approach, school boards are responsible for funding the core program and for raising the money through local taxes. The role of the province is to assist boards that are unable to raise enough money to pay for the core program.

One of the differences between the provincial model and the shared funding model relates to the clarity of accountability. In the provincial model, it is easier for parents and taxpayers to understand who is responsible for what. Accountability is less clear in a shared-funding model. In both models, it is necessary to define the core program and the costs of providing it.

Conclusions

There is general agreement among Advisory Committee members and comments in the briefs that equality of opportunity has to be a fundamental element of education funding. Further, they believe that the best way to achieve this goal is for the province to be responsible for defining and paying for the core education program. This means that the province, with the assistance of the education partners, needs to define what is a core level of education and what it costs to provide that level. The province would provide the funds necessary to pay for the core. School boards would be responsible for managing schools and for delivering programs with the funds available.

WHO SHOULD PAY FOR LOCAL PROGRAMMING?

Discussion

Local programming could be paid for by the province or by school boards.

1. ***Provincial funding of local programs***

   Under this method the province would provide the funds needed to meet local requirements. Only one level of government would be levying taxes for education.

   If the province provided sufficient discretionary funds to school boards there could be room for flexibility and innovation at the local level. Even school boards with limited taxing ability could still finance local programs. However, provincial funding may not provide school boards with sufficient autonomy and flexibility to respond to local needs.

2. ***Local funding of local programming***

   In a system where school boards pay for local programming, boards could have full discretion over taxing and spending at the local level, or the province could put limits on the extent to which school boards can fund local programs.

   - ***Unrestricted local funding of local programs***. The advantages of this system are local autonomy, flexibility, and accountability. Local discretion over spending means that school boards can be responsive to local needs and desires. By levying local taxes, school boards can choose to have more programs or more expensive programs than the provincially determined core level. When school boards have this degree of discretion, they are able to fund new ideas and programs and to improve the quality of education. The development of so-called "lighthouse" programs are an example of what can happen when there is local flexibility.

     Local taxing authority would make school districts accountable to local taxpayers for local spending decisions on education.

     Local taxing authority would also allow school districts to use tax revenues to compensate for any discrepancies in the provincial distribution formulas. Since the formulas cannot fully capture all of the differences in costs among school districts, local taxes could be used to correct for any perceived under-estimation of costs in the formulas.

     There are also potential disadvantages to local taxing authority.

     - Because boards with access to a stronger tax base are able to provide better services, local taxing authority could compromise equality of opportunity.
     - If local taxes increase over time in response to local requirements, there may be pressure to recognize local spending decisions in the core level of programming. This could aggravate the debate over what should be considered part of the core

program and what should be considered as "local programming."

- The province, school boards, and local governments would have to compete for the use of the property tax base. This competition would increase the potential for confusion inherent in a system in which the tax base is shared by several governments. Taxpayers will not be able to see as clearly which taxes are going to which government and for what purposes.

- ***Restrictions on local funding of local programs.*** The main argument for restricting the use of local funding is to protect equality of opportunity. If some boards have greater ability to tax than others, they will be able to provide a higher quality of education. Such a system compromises equality of educational opportunity and may provide some justification for limiting the extent to which boards can raise taxes.

  There are several ways in which restrictions can be placed on local spending and taxing powers:

  - ***formal limits.*** The province can restrict the types of expenditures or the percentage of expenditures for which a school board could levy taxes locally.
  - ***referenda.*** Taxes could be levied locally only with the approval of taxpayers through a referendum.
  - ***petitions.*** A petition from a large number of taxpayers could force the school board to reconsider a tax decision.
  - ***voting proportion.*** An increase in spending could require substantial agreement by a majority of the board: e.g. 66 percent.
  - ***disclosure.*** The province could require school boards to consult in a prescribed manner with the public before deciding on the annual budget.

At some time or other, most of these mechanisms have been used to limit some aspect of local government taxation. Today, the referendum is being used in B.C. to limit the taxation powers of school boards.

Although a referendum process may make school boards more accountable to taxpayers, it has proven to be a cumbersome and impractical instrument. Even if school boards get approval from taxpayers to levy a local tax, the authority extends for only one year. Each year the referendum process has to be repeated, with the result that the referendum process has effectively denied school boards access to local taxation.

Some of these restrictions may work in the short run but they can have unintended consequences in the long run. The potential problems depend on the nature of the restrictions: for example, putting a ceiling on expenditures may encourage some school boards to spend up to the specified limit. In all cases, however, restrictions make it more difficult for school boards to respond to local needs.

Conclusions

As in many other issues, the methods for funding local programs involve a tradeoff between equality of opportunity and flexibility at the local level. Comments from the briefs and Advisory Committee members do not indicate agreement on the extent to which school boards should have the power to fund local programs by levying local taxes. We also need more analysis and discussion of the issue of constraints on local taxing and spending decisions.

SHOULD THE PROVINCE TRANSFER FUNDS TO PARENTS INSTEAD OF TO SCHOOL BOARDS?

Discussion

A number of briefs submitted to the Panel recommended the use of education vouchers. Some European countries and some states in the U.S. make limited use of vouchers to fund education, but vouchers are not used in any Canadian province.

Vouchers are subsidies to individual parents which they must spend on their children's education. Voucher systems may have different characteristics designed to achieve different purposes. For example, the value of the voucher can be the same for every child, or it can vary according to family income, the child's level of achievement, or other factors.

Vouchers are an alternative way of distributing funds for education. Instead of distributing the funds to school boards, the provincial government would transfer funds directly to parents.

People who support the use of educational vouchers believe they give parents greater choice and control and that they promote competition among schools. They believe that competition will improve the quality of education and lower the cost. However, it is not clear from experience that voucher systems lower the costs of education.

There are a number of problems with vouchers.

- Consumers often do not have full information about schools and programs; this limits choice, especially for low-income families.
- Vouchers do not ensure equality of opportunity in education. If all parents receive the same amount of money in the voucher, they will not all be able to buy the same education services because costs differ in different jurisdictions and for different students.
- Even if the value of the voucher varies according to the characteristics of the student (for example, special needs), there is still the problem of having to classify people. There is the danger that students with special needs will not be treated fairly.
- If families are able to supplement the voucher with their own money, the system will not be able to ensure equality of opportunity.
- Children are not guaranteed access to the school of their choice. The popular schools would still have to find some way of selecting (and rejecting) students.
- Uncertainty about enrolment will make it difficult for schools to plan for the future.

Conclusions

Although it may be possible to minimize some of the problems with vouchers by designing them carefully, vouchers are likely to result in inequities in educational opportunities between high-income families and low-income families. This result goes against the long-standing educational goal of equalizing educational opportunities.

Although the voucher system may have many problems, it is important to recognize that parents have a strong desire for more choice in the current education system. This desire for greater choice is an important issue that is beyond the scope of a review of the education finance system.

PROVINCIAL FUNDING

SIX

Each school district needs sufficient funds to deliver the recognized provincial education program. The provincial government is responsible for making sure that these funds are available. In this Chapter we examine the way the province determines the overall level of funding for public schools (the size of the funding "pie") and the way those funds are distributed to individual districts (the slices of the "pie").

LEVEL OF PROVINCIAL FUNDING

Issues

Much of the public debate over education funding centres on the twin issues of adequacy and affordability: are there enough funds for schools to do their job; and is the level of funding consistent with taxpayers' willingness to pay? These questions are not easily resolved. They require political judgment.

A finance system cannot guarantee a level of funding that everybody will view as acceptable. As we pointed out in Chapter Four, changing the finance system will not eliminate debate over the amount of money that should be spent on schools. However, the design of the finance system can help shape the debate.

In this section we review three issues that are critical to the design of a suitable finance system.

- What method or methods should be used to set the overall level of provincial funding?
- Should provincial funding levels reflect collective bargaining outcomes?
- How can we achieve greater stability and predictability in provincial funding?

WHAT METHOD OR METHODS SHOULD BE USED TO SET THE OVERALL LEVEL OF PROVINCIAL FUNDING?

Discussion

In recent years three approaches have been used in British Columbia for calculating the overall level of provincial funding: actual spending, defined service levels and costs, and block funding.

1. ***Actual Spending***

   Under this method overall funding is based on how much school districts actually spent in the previous year, with an adjustment for expected cost increases.

   Actual spending and actual costs incurred by school districts are obviously an important guide to the cost of delivering the provincially recognized education program. However, there are two reasons why provincial funding cannot be based simply on the previous spending patterns of boards.

- ***Poor incentives.*** If the province uses actual spending as the measure of how much school districts need, school boards will have little incentive to be cost effective because the province will fund all their expenses.
- ***Different school boards have different spending priorities.*** Board spending decisions reflect local priorities as well as the provincially recognized education program. The province will inevitably see some of these "local" costs as discretionary.

In the past actual spending has been used as an element in the funding system. Before 1982 the basic education finance system defined provincially recognized funding by reference to spending in the previous school year. This system was abandoned, however, in favour of a system based on defined service levels and costs.

2. ***Defined Service Levels and Costs.***

Under this method the province sets the levels of service and the costs that it will fund.

Instead of basing funding on the actual costs incurred, the provincial government can define the service levels and costs that it is willing to accept as a basis for the provincially recognized program. This was the approach used from 1984 to 1989/90 when service levels and cost factors were defined as part of the "fiscal framework."

This approach has some advantages. By setting out clearly the services and costs the province is willing to recognize and fund, it provides a structure for the discussion of funding by the partners in the education system. For example, if school boards believe more funding is required, they can point out where the service levels are inappropriate and where the cost factors are out of date. On the other hand, if the province wishes to limit its education funding, it can do so by defining the provincially recognized service it is willing to support.

However, the approach is not without its problems. First, it is hard for any formula-based system to capture all the complexity of a school operation. Formulas are always an approximation. Therefore, it will always be possible to point out areas of spending that are not recognized in the framework. Secondly, the cost factors will always be somewhat out of date because these costs can change after the funding level and budgets for the year have been struck. Third, and most important, there will always be a tension between actual and recognized costs because provincial funding cannot simply rubber stamp all costs incurred by boards.

Like actual costs, the use of defined services and costs also presents some problems. It was for this reason that the change was made to block funding in 1990/91.

3. ***Block Funding.***

Under this method the province increases the level of funding in each year by an amount that allows for changes in enrolment, changes in economic conditions, and changes in service levels.

Rather than recalculating the level of funding each year by referring to either actual costs or recognized services, block funding puts the emphasis on reasonable changes in funding from year to year.

Each year, provincial funding increases to reflect three factors: changes in the level and composition of enrolment; changes in economic conditions; and, changes in the services schools are expected to provide. The adjustment for economic conditions provides school boards with an annual allowance for inflation in costs. Block funding was recommended by the Sullivan Royal Commission on Education.

While block funding eliminates some of the problems with other methods of setting provincially recognized funding, it too is not without its weaknesses. To some, block funding is simply "pulling a number out of the air" with no reference to the real world of teachers and learners in schools. It has more to do with what the government is willing to pay than with what is needed. For block funding to be acceptable, agreement must be reached on two issues.

- ***A suitable starting point***. The present system of block funding took total school board spending in 1989/90 as its starting point. However, the starting point might have been determined by reference to defined service levels and cost factors.
- ***Reasonable annual adjustments***. The annual adjustments must be seen as reasonable. The basis for those adjustments must be well understood, and the method of calculation should be predictable.

Conclusions

If the province is to fund the provincially recognized program, the education partners must reach agreement on the approach to be used for determining provincial funding. At this time, such agreement is not apparent. Some favour retention of the block funding approach, and others would like to see a return to defined service levels and cost factors.

Whichever route is followed, most Advisory Committee members see value in examining the definition of what is provincially recognized and what it costs to deliver that program today. Such a process could be the basis for either continuing block funding or returning to the system in place prior to 1989/90. Therefore, we have concluded that a collaborative financial planning process for defining the cost of the provincially recognized program would be useful.

This process would also provide the forum for discussing changes to the provincial education program. One of the biggest concerns of school boards and their staff is their capacity to meet the growing expectations of schools as we move into the 21st century. They are concerned that the resources will not be available to deliver new programs in new ways.

They are seeking, therefore, some assurances that the province will not introduce changes in provincially recognized programming without also providing school boards with the financial resources to implement the changes effectively. A collaborative financial planning process is the best way of achieving agreement on what is needed and what is possible.

SHOULD PROVINCIAL FUNDING LEVELS REFLECT COLLECTIVE BARGAINING OUTCOMES?

Discussion

School boards have a central role in shaping some of their costs through the collective bargaining process. Salaries and benefits account for 90 percent of school operating costs.

If all bargaining outcomes were automatically reflected in provincial funding, there would be little incentive on the part of school boards to bargain hard with their employees over those costs. Stated differently, if the province funded the full amount of all bargaining outcomes at the local level, there would be no local accountability for local decisions. The Royal Commission on Education put the dilemma this way:

> *Because the provincial government is not a direct player in the collective bargaining process it is reluctant to "ratify" automatically any locally negotiated salary settlement. The government would like the parties to arrive at a settlement within the bounds of the government's willingness to pay. However, over time, there is considerable pressure on provincial funding to keep pace with collective bargaining outcomes... Any funding system has to come to grips with this problem.*

This tension in the funding system can create a situation where the province believes it has provided sufficient funds to meet the needs of schools but, because that funding does not reflect bargaining outcomes, school boards have to reduce services. This can lead to a situation where the province blames school boards for unaffordable bargaining outcomes and school boards blame the province for insufficient provincially recognized funding. As a result, the public is confused, and accountability is blurred.

If school boards had greater access to local taxing authority, they could use that power to pay for bargaining outcomes not recognized in provincial funding. In this way, school boards would be accountable to local taxpayers for some of the consequences of local bargaining outcomes. Over time, however, the debate over an appropriate level of provincial funding would continue. The debate would become acute if local taxpayers were to become dissatisfied with the level of their property taxes and were to try to get relief through additional provincial funding for schools.

Conclusions

Collective bargaining has a major impact on the cost of education. However, it is generally agreed that provincial funding should not automatically reflect bargaining outcomes because such a system would distort the bargaining relationship between boards and their employees.

HOW CAN WE ACHIEVE GREATER STABILITY AND PREDICTABILITY IN PROVINCIAL FUNDING?

Discussion

One of the concerns of school boards is the lack of stability and predictability in school funding. The level of provincial funding is decided annually. Therefore, boards have no basis for longer-term planning and no certainty that funding levels will be maintained. Two suggestions have been made for increasing the predictability of school funding: indexing of provincial funding, and multi-year budgeting.

1. ***Indexing.***

   Indexing would tie increases in school funding to clearly defined economic indicators. Many alternative indices have been suggested, and each one has both strengths and weaknesses.

   Some would link education funding to trends in consumer prices and labour costs. Price indices such as the Consumer Price Index are readily available and are well understood.

   These general indices do not reflect the particular costs of running schools or the wages and salaries of people working in the schools. For this reason a special education cost index has been suggested. However, such an index could introduce poor incentives. If all increases in education spending were reflected in the index, then all increases would be funded automatically by the province.

   An alternative type of index is one that reflects the capacity of the provincial government and the provincial economy to support education spending: for example, growth in provincial revenues or growth in the economy. Both are routinely measured and could be used as a basis for provincial funding.

   The provincial government may be reluctant to agree to an index because education spending is a large component of the provincial budget. Linking education spending to an index would reduce the government's flexibility at budget time when choices have to be made between competing demands on provincial resources. Increased predictability for boards can come only at the expense of budgetary flexibility for the provincial government.

2. ***Multi-year Funding.***

   Multi-year provincial funding is an alternative way of achieving greater predictability for school boards. Multi-year funding could take a variety of forms, but the simplest would be for the province to give some indication of funding over a two or three-year period. It could indicate either a minimum level of funding or a range of funding. Such an approach would enhance predictability without locking the government into an indexed system.

Conclusions

There is substantial support for measures that would increase stability and predictability in provincial funding. Some disagreement remains about the best method to achieve that objective.

DISTRIBUTION OF PROVINCIAL GRANTS

Issues

An equitable system of provincial funding must ensure that all school districts are able to provide a similar level of service using funds made available from the provincial government. To make this possible, provincial funding must take account of inherent differences in costs between districts. Today these differences are acknowledged through the use of a series of funding formulas called the fiscal framework.

The fiscal framework has been used for the past eight years as the method of distributing grants to school districts. Since the introduction of block funding, the fiscal framework is no longer used to set the total level of provincial funding; but the formulas are still used to determine the distribution of funds between districts. The formulas in the fiscal framework have been modified from time to time in response to recommendations from school boards.

The distribution system has come under increased criticism since the introduction of block funding. Because the taxing powers of school boards have been constrained by the requirement to hold tax referenda and a limit has been put on the total block of provincial funds for education, more attention has been focused on the way provincial grants are distributed to boards. In addition, information has been presented on a "per pupil" basis, and this method of presentation has created a greater awareness of differences in funding between districts. For example, neighbouring school districts have compared their per pupil funding and wondered why they are different.

Despite these criticisms, it is generally recognized that there is a need to reflect, in a formula, the differences in the cost of education across school districts. Many of the briefs support retaining a formula-based approach to distributing provincial education funds. The Panel has received little or no support for movement to an alternative approach. To quote one brief:

> *...the current fiscal framework system provides a solid foundation that could be readily amended to achieve the desired outcomes of understandability, equity and simplicity.*

This is not to say that everybody is satisfied with the current distribution of funds or agrees that the distribution formulas accurately reflect all of the major cost differences among districts. To many observers the system remains seriously flawed. It is beyond the scope of this review to examine in detail all the suggested inequities. We can, however, take a close look at the process for assessing and resolving complaints.

Some of the criticisms of the distribution system come from its complexity: it is hard to have confidence in a system that many people do not fully understand.

In view of these various concerns, we see three issues regarding the distribution of provincial education funds that require further examination.

- How should inequities be addressed?
- What would make the distribution system more understandable?
- Should provincial funds be targeted to specific purposes?

HOW SHOULD INEQUITIES BE ADDRESSED?

Discussion

As long as there are serious doubts about the equity of the distribution system, the credibility of the education finance system as a whole will be compromised. There must be a process for reviewing concerns over equity and for recommending changes. A process of annual review has been used for some years, but it has been criticized from four perspectives.

- ***Membership***. The reviews have been conducted by panels of superintendents and secretary treasurers, supported by staff from the Ministry of Education. Knowledgeable education partners such as trustees, principals, teachers and other school board employees have not been represented.
- ***Approach***. The process lacks an agreed basis for determining when the allocation system fails to meet the test of equity. It doesn't have a way to tell us "When do we have it right?" or "How much precision do we need?" Nor does it monitor the impact of changes to the funding system.
- ***Information base***. The work of the technical committee is hampered in many areas by a lack of information on a consistent basis from school districts on how funds are spent.
- ***Perspective***. The review process looks at only one aspect of funding: how funds should be distributed. It fails to look at the way districts are managing those funds.

The present system of review has been successful in making improvements to the funding formulas. However, there will have to be some changes in the process in order to ensure that people have confidence in the distribution system.

Conclusions

Most Advisory Committee members agree that resolving inequities in the funding formula is a priority issue. A committee should be established and charged with the task of assessing complaints about the current system. This process of review should be ongoing, and it should have the following characteristics.

- It should involve a wide range of expertise from the partners in the school system, and it should be technical in nature.
- It should not be a forum for debate about the structure of the finance system or the overall level of funding.
- Those who are charged with reviewing complaints should be responsible for explaining and justifying any proposed changes to the

system. For this reason, membership of the review committee should be more stable than it has been to date.

- The review process should pay more attention to ensuring wide support for changes than to implementing frequent changes.

WHAT WOULD MAKE THE DISTRIBUTION SYSTEM MORE UNDERSTANDABLE?

Discussion

Most people agree that the current system of distributing provincial grants is complex: the detailed explanation of formula funding is almost 60 pages long. Clearly, it is not possible to explain all the facets of the funding formulas in a quick and easy way to parents, taxpayers, teachers, and school trustees.

The practice of annual changes to the framework also adds to the difficulty of understanding. It is hard to keep up with a complex system that changes so frequently. Some people have given up trying to do so!

Simplification may be one way to improve understandability. The funding formulas used by other provinces tend to be less complicated than the fiscal framework used in B.C.; and it is possible that the current system in British Columbia could be simplified. However, any attempt to simplify the system will face some equally strong pressures in favour of complexity.

- As long as the province provides the "lion's share" of school funding, the distribution formulas will be expected to take into account all the significant reasons for variations in costs between districts. In other provinces that have a simplified funding formula, school boards supply much of the education funding from local taxation.
- A simplified system may be hard to understand unless the individual funding categories reflect the way a school district budget is constructed.
- A simple formula is acceptable as long as there are relatively few cost differences between districts. When the differences are substantial, a simple formula will not be accepted as being equitable.
- Over time there is pressure to include more and more of the unique circumstances of each district in the funding formulas. These changes increase rather than decrease complexity.

For all these reasons, substantial simplification may be neither possible nor desirable. If this proves to be the case, greater efforts will have to be made to communicate the essence of the current system in a way that is easily understood by all partners in the system.

Conclusions

There is wide support for improving the equity of the distribution system and also for making it more understandable. This means simplifying the system wherever possible. However, even if the underlying formulas remain relatively complex, the system must be clearly explained.

The committee charged with reviewing the equity of the fiscal framework should also be given the tasks of simplifying the system and presenting it more clearly so that more people can understand it.

SHOULD PROVINCIAL FUNDS BE TARGETED TO SPECIFIC PURPOSES?

Discussion

The provincial government places very few restrictions on the way school boards spend the funds provided to them. Although formula funding uses detailed estimates of the cost of different services, school boards are not, for the most part, constrained in how they allocate their budgets. The province views the fiscal framework as a funding formula, not a spending formula.

Within the operating budget, only a few elements of provincial funding must be spent in prescribed ways. These are:

- school accreditation.
- textbooks and other learning resources.
- minor capital projects.

In addition, a recent ammendment to the *School Act* sets conditions on the amount school boards must budget for special education programs.

Concerns have been raised around the issue of targeting education funds. Some wish to see more restrictions on the way school boards manage provincial funds because they are concerned that boards may make questionable short-term decisions (for example, foregoing necessary building maintenance when budgets are tight) or favour programs for the majority over programs for the minority (e.g., by cutting special needs programs when resources are scarce).

However, more restrictions on the way school boards allocate their funds would dilute their authority and compromise their ability to respond to local issues and concerns.

Most observers would agree that the Ministry of Education cannot effectively operate and manage 1,600 schools from its offices in Victoria. Local boards are necessary to ensure sound management that is sensitive to local conditions. School boards certainly feel that they are in the best position to decide how their funds should be spent and that they are directly accountable to their community for the decisions they make.

Conclusions

The debate over more or less targeting is difficult to resolve. It may be that the call for more targeting has become more pronounced because school boards are faced with difficult budgetary decisions. Parents are looking for ways to protect programs, and employee groups are seeking ways of protecting jobs. Both see targeting as an answer.

Regardless of where one stands on the general issue of targeting, targeting may be desirable for certain kinds of programs. For example, it may be appropriate to target funds for programs that are optional or designed to meet very specific needs (such as the school lunch program). School boards could decide whether or not they want to implement these

programs (with provincial financial assistance). Targeting may also be appropriate for programs in which the provincial government has a special interest (such as pay equity) or where a common standard is desirable. In such cases, the targeted funds would be provided outside of formula funding, and they should be time-limited.

TAXATION

SEVEN

Property taxes pay for about 30 percent of the costs of education. The province levies both residential and non-residential property taxes for education; school districts can raise money through residential property taxes only, and only by referendum. In this chapter we raise a number of issues concerning the use of property taxes by the province and by school boards.

PROVINCIAL TAXATION

Issues

In 1992, the amount of residential property taxes going to fund schools was almost $396 million (net of the home owner grant) and paid for about 12 percent of the cost of education; almost $617 million in non-residential property taxes went to fund schools and paid for about 18 percent of the cost of education. Table 7.1 shows that the proportion of education expenditures being financed by property taxes has fallen over the last ten years.

Even though school funding relies less on property taxes now than it did than ten years ago, a number of concerns have been expressed about using any amount of property taxes for education. We address five issues that have been raised in briefs and by the Advisory Committee concerning provincial property taxation for schools.

- Should the province use property taxes to pay for schools?
- Should the province earmark property taxes for schools?
- How should the property tax base be shared among governments?
- How should provincial school taxes on residential property be shared among taxpayers?
- What form of tax relief should be provided?

SHOULD THE PROVINCE USE PROPERTY TAXES TO PAY FOR SCHOOLS?

Discussion

A number of briefs have suggested that education should be completely removed from the property tax and be funded from other sources. They give two reasons.

- They see no connection between property values and the benefits of education.
- They see property taxes as a regressive form of taxation because the burden is relatively greater on low-income people. They believe that other taxes, such as the income tax, are fairer.

The tenuous relationship between property and education, and the regressivity of the property tax are both subjects of ongoing debates that are beyond the scope of this paper. Although these may be strong arguments against using property taxes to finance education, the financial

consequences of removing property taxation from school funding are significant and cannot be disregarded. A change in tax policy of this importance needs to be considered in the broader context of the whole local government finance system.

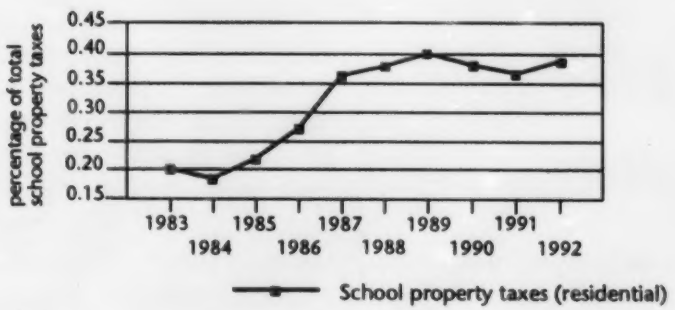
Property taxes contribute over $1 billion to education. Removing these taxes would force the province to make up the lost revenue from other sources. For example, the sales (social services) tax would have to increase by about 50 percent. Alternatively, the provincial personal income tax rate would have to increase by more than 20 percent.

Conclusions

The property tax has been widely criticized for being an unfair tax and unrelated to the benefits received from education. Whether or not these arguments are valid, the impact on other tax rates of removing education from the property tax is substantial. For this reason, the substitution of other taxes for the property tax needs to be analyzed in the context of provincial tax policy and provincial-municipal finances generally.

TABLE 7.1 **SCHOOL PROPERTY TAXES AS A PERCENTAGE OF SCHOOL FUNDING, 1983-92**

TABLE 7.2 **SCHOOL PROPERTY TAXES (RESIDENTIAL) AS A PERCENTAGE OF TOTAL SCHOOL PROPERTY TAXES (RESIDENTIAL AND NON-RESIDENTIAL), 1983-92**



SHOULD THE PROVINCE EARMARK PROPERTY TAXES FOR SCHOOLS?

Discussion

The province finances schools from a number of different sources:

- residential property taxes.
- non-residential property taxes.
- income taxes.
- sales taxes.
- other provincial revenues.

Only provincial residential and non-residential property taxes are earmarked for education; other provincial taxes and revenues are not. Earmarking means that specific revenues (for example, property taxes) are assigned to specific purposes (for example. education).

The experience with earmarking of property taxes for education in other provinces is mixed. In Prince Edward Island and New Brunswick where education funding is a provincial responsibility, provincial property taxes are not specifically dedicated to education. Rather, education is financed out of the general revenues of the province (which include property taxes). In other provinces where the provincial government levies property taxes (Nova Scotia, Manitoba, and Alberta), the revenues are specifically dedicated to education. There are no provincial property taxes for education in Ontario or Quebec.

One argument for dedicating property taxes to education is accountability: when taxpayers know that their taxes are paying for a specific service such as education, they can more easily see what they are getting for their money. However, accountability is made more difficult because:

- less than 12 percent of the cost of education is covered by residential property taxes, and
- the province pools property tax revenues so that the revenues from a particular school district are not necessarily spent in that district. Taxpayers cannot know how much of their property tax dollars are spent in their own school district.

Opposition to the removal of earmarking may come from municipal governments. Because they share the property tax base with the provincial government, municipal governments prefer to have limits placed on the use of property taxes by the provincial government. Earmarking property taxes for education is one type of limit.

Conclusions

The province uses a number of different taxes and other sources of revenue to finance education. It does not dedicate specific revenues to other areas of expenditure (such as health or social services, for example). There does not appear to be general agreement on the issue of dedicating provincial property taxes to education: some briefs and advisory committee members think it is a good idea; others do not.

HOW SHOULD THE PROPERTY TAX BASE BE SHARED AMONG GOVERNMENTS?

Discussion

The property tax base in B.C. is shared by the province, school districts, municipalities, regional districts, and others. Where many governments are raising revenues from the same tax base, two types of problems can arise:

- taxpayers have difficulty knowing which government is responsible for tax increases.
- governments have difficulty sharing the limited tax base in a fair way.

There are at least two ways to minimize the problems inherent in sharing a tax base.

- **Require school boards to collect their own taxes.** If school boards were to send out their own tax bills and collect their own taxes, then taxpayers would have a clearer idea of how much they are paying in taxes to the school board. Separating the collection of school board taxes from the taxes collected by other taxing authorities would make the system less confusing to taxpayers and would increase understandability and accountability.
- **Ensure stability in provincial school property taxes and tax relief.** Taxpayers face property taxes levied by municipal authorities, by the province, and sometimes by school districts. This system is already confusing, and policies that promote instability in provincial property taxes are likely to increase the confusion.

One example of instability is the shift during the past ten years from non-residential to residential taxation to fund schools. Table 7.2 (page 43) shows how residential taxes have changed over time relative to total property taxes. Residential taxpayers know their taxes have gone up, but they do not know which level of government is responsible for the increases.

The supplementary home owner grant is another example of instability. In 1990 and 1991 the home owner grant was increased to give home owners an additional grant to be applied against school property taxes. This year the government eliminated the supplementary home owner grant. The introduction of the supplementary grant, followed by its removal, creates unnecessary instability in provincial school property taxes. Home owner grants are evaluated further below.

If the provincial property tax for schools changes substantially every year, taxpayers have a hard time understanding why there has been a change and which level of government was responsible. Frequent changes in provincial property taxes can also cause problems for other taxing authorities. A volatile tax at the provincial level affects the ability of municipal authorities and school districts to raise revenue from property taxes.

Conclusions

Stability in provincial school property taxes and in property tax relief is essential in a system where many levels of government share the same

property tax base. There is general agreement among Advisory Committee members that provincial school property taxes and tax relief programs should not change dramatically from year to year.

HOW SHOULD PROVINCIAL SCHOOL TAXES ON RESIDENTIAL PROPERTY BE SHARED AMONG TAXPAYERS?

Discussion

As part of provincial tax policy, the government must decide how school taxes on residential property are to be shared among taxpayers. Today, the province uses a different tax rate in each school district. The rates are highest where average property values are low and lowest where average property values are high.

One alternative is to apply a uniform rate of tax throughout the province. This is the system used for non-residential tax policy, and it was the policy in place in B.C. prior to 1982, when it was called the "basic levy" system. However, the basic levy policy has come under considerable criticism in this province for two reasons.

- With a uniform rate, taxes paid vary directly with the assessed value of property. Taxpayers who live in the lower mainland and other areas with high property values pay much higher school taxes than those people living in areas with low property values. Indeed, many home owners in school districts with low assessed values paid little or no school taxes after deducting the home owner grant.
- In a period of rapidly increasing property values, the spread in residential taxes paid in different parts of the province tends to widen.

For these reasons, the basic levy system was replaced with one intended to create greater evenness in taxes paid across the province. The Sullivan Royal Commission report supported the move away from a uniform rate with these words:

> *The Commission believes that the decision to move away from the basic levy system was sound. We agree that assessed property values are not an ideal measure of ability to pay and that a funding system should accept some variation in tax rates to support the core program.*

However, the Commission also suggested some changes in the way tax rates are calculated. The provincial government has accepted the advice of the Commission and has adopted a method of calculating school district tax rates that is a balance between a uniform-rate system and one that would generate uniform taxes from district to district. Table 2.4 in Chapter Two provides some examples of variations in tax rates and taxes paid on "average" homes across the province.

Conclusions

There continues to be some debate about the appropriate way of sharing the provincial residential tax throughout the province. The debate centres on different concepts of tax equity. Home owners in the areas with high assessed values continue to argue that they pay a greater share of taxes than they should. They would prefer to see more evenness in taxes across the province. Others believe that assessed property values are

a reasonably good measure of personal wealth and should be used as the basis for taxation. These people advocate a return to a uniform tax rate.

WHAT FORM OF TAX RELIEF SHOULD BE PROVIDED?

Discussion

There is a general perception that property taxes are regressive and take a greater proportion of income from low income earners.Most provinces have programs to help low-income taxpayers.

The three ways for delivering relief from property taxes are home owner grants, tax credits, and tax deferrals. B.C. uses home owner grants and tax deferrals.

1. *Home Owner Grants*

   The home owner grant has been in place in B.C. for many years. Despite some confusion about its name, it is relatively well understood because it directly reduces the taxpayer's liability at the time the property taxes are due. The property tax payable is less than it would be without the grant. However, there are some concerns about the design of the grant.

   - Because the grant is a flat amount, it is not targeted to those who need it, except for the fact that seniors get a larger grant. An alternative would be to replace the home owner grant with a tax-relief scheme linked to ability to pay.
   - The home owner grant reduces school taxes first, but if school taxes are less than the grant, the balance can be used to reduce other taxes. Some people question the link between the home owner grant and school taxes and argue that the grant should help reduce general property taxes.
   - The home owner grant adds another complicating factor to an already complicated property tax system. Some would like to eliminate the grant and replace it with a reduction in provincial residential tax rates. Although this would simplify the system of property taxes, a change of this type would result in a redistribution of the property tax. The implications of such a change require further study.

2. *Tax Credits*

   Income tax credits are one alternative to the home owner grant. Quebec, Ontario, and Manitoba use income tax credits to reduce property taxes.

   A tax credit can be designed to give relatively more relief to those with low incomes than to those with high incomes. Tax credits can be used for both home owners and renters.

   Tax credits have three disadvantages.

   - Because tax credits are administered as part of the federal and provincial personal income tax, the home owner/renter receives a credit only once a year when filing income taxes. However,

property taxes are payable long before the credit is received. This situation can result in a liquidity problem for taxpayers.

- The taxpayer has to file an income tax return to be eligible for a tax credit. Those with little or no income, who are most in need of a credit, often do not file income tax returns.
- Because the federal government administers tax credits as part of the income tax system, taxpayers tend to perceive the property tax credit as a reduction in federal and provincial income taxes and not a credit against local property taxes. This tends to confuse taxpayers and reduce accountability.

3. *Tax Deferrals*

An elderly person living on a low income in a house that has increased substantially in value may not be able to afford to pay the increased property taxes without selling the house. In order to alleviate the financial problems of seniors who are cash-poor but asset-rich, the provincial Land Tax Deferment Program allows seniors (and widows and the disabled) to defer property taxes until they sell their home or until after their death. A tax deferral allows seniors to stay in their homes even if they don't have enough income to meet their property taxes.

In spite of the apparent advantages, tax deferral programs tend to be unpopular. People often have strong emotional attachments to their homes and do not like the idea of putting a lien on their children's inheritance. For these reasons, tax deferral programs are not an effective way to provide general property tax relief.

Conclusions

Tax credits may be more desirable in terms of fairness because they are more closely related to ability to pay than are home owner grants. However, home owner grants are more understandable to taxpayers because they are clearly identified as a reduction in property taxes and they directly address potential cash-liquidity problems. Although tax deferrals have the advantage that seniors who cannot afford their property taxes can stay in their homes, tax deferrals tend to be unpopular.

SCHOOL BOARD TAXATION

Issues

If school boards have taxation powers, two main issues need to be resolved.

- What sources of tax revenue should be available to school boards?
- Should school board tax revenues be equalized?

WHAT SOURCES OF TAX REVENUE SHOULD BE AVAILABLE TO SCHOOL BOARDS?

Discussion

Since 1986, school boards have been able to levy taxes on residential property only (and, since 1990, only by referendum). Prior to 1982, however, they levied taxes on both residential and non-residential property. Between 1982 and 1986, they had no ability to levy taxes. In this section, we evaluate three potential taxes that school boards might use: residential property taxes, non-residential property taxes, and income taxes.

1. ***Residential Property Taxes***

   The main argument in favour of school boards having the power to tax residential property is that the residential property tax is a visible tax and therefore an accountable tax. Residential taxpayers usually know how much they pay in property taxes and can relate the amount of their tax to the amount the school board spends.

   Further, if the costs of the provincially mandated program are paid out of provincial revenues and not out of school board revenues, then there should be sufficient room in the residential tax base to meet local expenditure requirements. School boards may not require access to the non-residential tax base as well.

2. ***Non-residential Property Taxes***

   The non-residential property tax represents a potentially large source of revenue for school districts. If school districts were responsible for a significant share of the costs of education (including, for example, a significant portion of the provincially mandated program), then they might require access to the non-residential property tax base.

   For reasons of accountability and equity, taxing of non-residential property may be less acceptable as a source of school board revenue than taxing residential property.

   - In the case of residential property, most of the people paying the tax will be local home owners and renters. However, some of the people paying tax on non-residential properties will reside outside of the school district. For example, taxes on a manufacturing company are likely to be passed on to the consumers of its manufactured products through higher prices for those products. These consumers may or may not reside in the same district. Exporting taxes reduces accountability since those who pay the tax do not vote in the jurisdiction where the tax is levied.
   - Because the residents of a school district are often both voters and parents of the children in the schools, the residents of communities with a relatively large share of non-residential property may tend to vote for increased expenditures (and by extension, increased non-residential taxes). Accountability suffers when local taxpayers demand greater expenditures with the understanding that other taxpayers (non-residential property owners or consumers in other jurisdictions, for example) will have to pay the bills.

- One of the problems with assigning school boards the authority to levy a non-residential property tax (as well as a residential property tax) is that those districts with a relatively large share of non-residential assessment will find it easier to increase property taxes than those communities that are largely residential. For example, the ratio of non-residential assessment to residential assessment is 1.6 on average for the province; however, among school districts this ratio ranges from a low of 0.3 to a high of over 24. The resulting inequity may need to be addressed through equalization. (Equalization is discussed further below.)

On the other side of the argument, business owners and employees might become more involved in the management of the school system if school boards had the power to tax non-residential property.

Although municipalities and other local governments have access to the non-residential property tax base, school boards do not. However, there are significant differences between school boards and municipalities.

First, municipalities provide services directly to commercial taxpayers (in the form of roads, policing, and other services) and they have a responsibility to encourage economic development. While they need to collect revenue from non-residential taxpayers to pay for direct services, they also have an obligation to make sure taxes do not get high enough to discourage economic development. In contrast, school boards do not provide a direct service to local businesses. Although industry and commerce benefit from a well-educated labour force, this benefit is linked to the education system as a whole and not to spending by the specific school district in which the business operates.

Second, municipalities depend much more heavily on locally raised revenues than school boards do. Provincial grants, for example, make up
a much smaller proportion of municipal revenues than school board revenues. This means that municipalities need to raise more from property taxes.

3. ***Income Taxes***

Some people have suggested that school boards should raise income taxes because incomes are considered to be a better measure of ability to pay tax than property values. While this may be true, there are several problems with implementing an income tax at the local level.

- If each school district designed, levied, and collected its own income tax, the administrative costs would be prohibitive.
- The only practical way for school districts to levy an income tax would be to piggy-back onto the provincial income tax, which in turn piggy-backs onto the federal income tax. In that case, the federal government would determine the tax base and collect the

tax. Unless school districts were able to set their own income tax rates, both local autonomy and accountability would be compromised. However, it is unlikely that, within the federal and provincial income tax system, school districts would be able to establish their own rates of tax.

Conclusions

If school boards were to have taxation powers, there is some support among Advisory Committee members for giving boards access to the residential property tax base. The residential property tax is a visible tax that both promotes accountability and gives local school boards greater flexibility. However, there does not appear to be general agreement on access to the non-residential property tax base. There are substantial barriers to introducing income taxes at the local school board level.

SHOULD SCHOOL BOARD TAX REVENUES BE EQUALIZED?

Discussion

If school boards have access to property taxes, then it is likely that those districts with high property assessments will have access to more resources and be able to provide better services than those with a weaker tax base. The potential for inequity in this situation may call for some way to equalize school board revenues across the province.

The main advantage of equalization is equity: all boards would be able to provide a comparable level of service by levying comparable levels of tax.

Equalization does raise some problems, however.

- Equalization may weaken accountability. There is no longer a clear relationship between school board spending and taxation.
- Equalization may reduce local flexibility. School boards that want to raise funds locally to respond to local needs may be concerned that other districts may be spending some of those funds. This will constrain the ability to respond to local needs.
- Some equalization schemes introduce poor incentives: school boards may be encouraged to spend more because they can count on getting financial support from outside their district.

There are also some practical problems in designing an acceptable equalization scheme. These problems include:

- lack of agreement on what constitutes equity. Should the standard for equity be the assessed value of homes, the amount of taxes school boards would have to raise to finance a given level of spending, or the incomes of taxpayers in the district?
- lack of agreement about the form of equalization. Should the province give support directly to the districts with the weakest tax base (with equalization grants paid for out of provincial revenues) or should the province redistribute some of the revenues from richer to poorer districts?

- difficulties inherent in maintaining a stable equalization scheme in a period of rapidly changing property values. How should the equalization scheme take account of the volatility in property values?

There are many complications inherent in an equalization system. Because of these difficulties, there is some support for a system which ensures equity by funding the provincially mandated education program from provincial revenues. Local taxation would then be used to pay for unique programs which require expenditures above the provincially mandated level.

This method would preserve equity because all students in the province, regardless of the district in which they reside, would have access to the provincially mandated program. Local taxation would be used for local programs and, in this way, allow for local autonomy and flexibility. Limiting the taxation powers of school boards would also restrict potential inequities among school districts. This issue was discussed in Chapter 5.

Conclusions

Equalizing the effects of local taxation would enhance equity in education. However, there are some disadvantages. In addition to the practical difficulties in designing an acceptable equalization system, there are disadvantages in terms of local autonomy and flexibility. While there is general agreement that equity is important, the issue of whether and how to equalize local tax revenues remains unresolved.

A SUMMARY OF THE DEBATE

EIGHT

In the previous chapters we have outlined the major issues in school funding. We have examined, also, the various approaches that have been suggested for resolving concerns about the current system. This chapter draws together the discussion in earlier chapters under two broad headings.

- ***Areas of potential agreement.*** We identify those areas of policy where the education partners appear to be in general agreement.
- ***Areas where choices have to be made.*** In those areas where agreement will not be achieved easily, we present four alternative approaches to school funding that illustrate the range of options open to the government.

By summarizing the discussion in this way, we hope to clarify the choices that have to be made in designing an alternative school finance system. It is our intention to encourage public discussion of a wide range of issues and options. Recommendations will come in our final report after we have consulted with the public and with education partners in a series of regional meetings.

AREAS OF POTENTIAL AGREEMENT

Based on the meetings with the Advisory Committee and the briefs submitted to the Panel, we can anticipate a number of areas of funding policy on which the education partners are in general agreement.

Roles and Responsibilities

- ***The province is responsible for defining and paying for the core program.*** The province determines (with the assistance of the education partners) what is a core level of education and what it costs to provide that level. It would provide the funds necessary to fund the core.
- ***School boards are responsible for managing funds in the best interests of students.*** School boards have the primary responsibility for managing the schools and delivering programs using the available funds.

Provincial Funding

- ***A joint financial planning process.*** A collaborative financial planning process involving all education partners should be used to assist the provincial government in defining the cost of the core program and the financial impact of changes in the mandate of schools.
- ***Distribution of provincial funds using a formula-based system.*** Provincial funds would continue to be distributed on the basis of a formula approach which reflects the different costs of providing education in different parts of the province.

- ***A review of inequities in formula funding by a broadly based technical committee.*** A committee drawn from education partners should be established and charged with reviewing perceived inequities in school funding, such as those identified by rapidly growing districts.
- ***Clarification of the distribution system.*** The funding formulas should be simplified wherever possible and presented in such a way that all education partners can understand how they work.

Provincial Taxation

- ***All citizens should continue to pay for schools.*** All citizens in the province, and not just the users of the service, should help pay for education.
- ***Stability in provincial school property taxes and property tax relief.*** If the province continues to use property taxes to pay for the core education program, it should do so in a way that is sensitive to local government's dependence on property taxes. Sensitivity implies that provincial school property taxes and tax relief policy should remain stable from year to year.

Some of these policies propose new processes for resolving the more detailed and technical features of school funding, particularly the task of redesigning formula funding. These processes will involve extensive and detailed work. Work on these processes is not dependent on the choice of option.

AREAS WHERE CHOICES HAVE TO BE MADE

On a wide range of other policy issues it will not be easy to achieve general agreement. For example, it will be difficult to achieve substantial agreement on answers to the following questions:

- Do school boards have sufficient taxing powers?
- To what extent should property taxes be used to pay for schools?
- Can school funding be more predictable?

On all of these issues there are strongly held, conflicting points of view. Therefore, we present in this section four options for school funding that illustrate the range of choices that have to be considered. They are not the only options available, but they are representative of the main alternative approaches identified by the Panel from discussions with the Advisory Committee and analysis of the written briefs. They reflect, also, the range of systems used in other provinces.

Option 1: Indexed Provincial Funding

The province determines the level of funding for schools and funds 100 percent of the costs through provincial revenue sources. Block funding is retained and is linked to a defined economic index in order to assure reasonably stable and predictable levels of provincial funding. School boards manage schools with the funds provided by the province and have no taxing authority. Option 1 is similar in some respects to the provincial funding systems in New Brunswick and Prince Edward Island.

Option 2: Local Autonomy

The provincial government provides each school board with sufficient funds to deliver the core education program. Provincial funding of the core is calculated on the basis of provincially recognized service levels and costs. School boards have the authority to set their spending level based on their assessment of local needs and priorities. School boards finance spending beyond the core level of funding by taxing residential and non-residential property. The capacity of each board to raise revenue is equalized by the provincial government. This option is similar in many respects to the system of school finance used in Alberta and Ontario.

Option 3: Limited Local Autonomy

The provincial government funds the core program on the basis of provincially recognized service levels and costs. School boards have authority to fund local initiatives, but this authority is limited (for example, up to a fixed percentage of the core funding), which is similar to the approach used in Quebec. School boards finance local initiatives by taxing residential property. The provincial government uses non-residential property taxes to help pay for the cost of the core program.

Option 4: Provincial Funding without Property Taxes

This option is similar in all respects to Option 1, but it substitutes other sources of provincial revenue for school property taxes. Elimination of school property taxes is feasible only if the province has sole responsibility for funding schools. It is not practical to give school boards taxing powers other than the property tax. This option is not used today in Canada. In those provinces where there is total provincial funding, some use of property tax revenues is in effect.

THE ELEMENTS OF EACH OPTION

The elements of each option are summarized in Table 8.1. More details on the various features of these options can be found in the earlier chapters.

Table 8.1 THE ELEMENTS OF EACH OPTION

	Option 1	2	3	4
Provincial funding:				
Of the core program	•	•	•	•
Of local initiatives	•			•
School boards have:				
Limited discretion to fund local initiatives			•	
Complete authority over spending & taxing levels		•		
Level of provincial funding based on:				
Defined service levels and costs		•	•	
Block funding	•			•
Indexing or multi-year funding	•			•
Distribution of provincial funds based on:				
Formula funding	•	•	•	•
Source of provincial taxation for schools:				
Non-residential property taxes	•	•	•	
Residential property taxes	•	•		
Replacement of school property taxes with other revenue sources				•
School board taxation:				
No tax power	•			•
Residential property taxes		•	•	
Non-residential property taxes		•		
Equalization of local revenues:				
Not required	•			•
Partial			•	
Full	•			

THE CHARACTERISTICS OF THE OPTIONS

Ideally, we are seeking a system that is understandable, accountable, stable and predictable, fair, adequate, affordable, flexible, and adaptable. However, it will not be possible to achieve all of these objectives to the same degree. For example, flexibility and adaptability if taken too far may compromise fairness. Therefore, the design of a finance system will always require a trade-off between competing objectives. In the following section we examine some of the characteristics of the four options.

OPTION 1: INDEXED PROVINCIAL FUNDING

Option 1 is similar to the current structure of school funding in British Columbia but with the innovation of indexed funding. The province provides school districts with all their funds, including an allowance for local programming. School districts have to manage schools with the funds provided by the province, including the outcomes of collective bargaining with staff. The characteristics of Option 1 are:

- ***an emphasis on fairness in service***. Wherever one lives in the province, regardless of the wealth of the school district, students have access to a similar level of education .
- ***predictability in funding***. The use of an index or multi-year funding provides school boards with a basis for longer term financial planning.
- ***clear accountability for school funding decisions***. Only one level of government is responsible for setting the level of funding for schools.
- ***restrictions on local autonomy***. Without access to local taxes, school boards will be limited in their ability to respond to the needs and desires of their students and constituents.
- ***minimal flexibility***. School boards have no independent source of revenue to correct for perceived inadequacies in provincial funding.

OPTION 2: LOCAL AUTONOMY

Option 2 emphasizes the role of school boards as an independent level of government with responsibilities for establishing budgets and managing within those budgets. The province is responsible for funding the core education program, but school boards determine the overall level of spending in their districts. Boards can tax residential and non-residential property to pay for local initiatives, including collective bargaining outcomes not funded by the province. The characteristics of Option 2 are:

- ***substantial local autonomy***. This option gives school boards the power to respond to local needs. It allows for the possibility of innovation at the local level and for "lighthouse" programs within districts.
- ***considerable flexibility***. With access to their own tax base, school boards can respond to any perceived inadequacies in provincial funding.
- ***fairness through the core program***. The core program provides equality of opportunity, but local taxation could lead to differences in service levels between districts. Equalizing the financial resources of boards may limit the disparities in spending between districts.
- ***confused accountability for tax decisions***. The property tax base is shared by three levels of government: the province, school boards, and local governments. Taxpayers are likely to be confused about whom to hold accountable for taxing decisions.

OPTION 3: LIMITED LOCAL AUTONOMY

Option 3 provides some local autonomy but sets limits on local discretion in order to maintain an emphasis on equity in service levels across the province. The province is responsible for funding the core program and has access to the non-residential tax base to help fund the core. School boards can tax and spend for initiatives, but that discretion is limited (for example, by limiting local spending to an upper limit). School boards use the residential tax base to fund local initiatives and bargaining outcomes not funded by the province. Those with the weakest tax bases may require equalization benefits. The characteristics of Option 3 are:

- ***substantial fairness in service***. Everyone has equal access to the core program. Local taxation would not lead to wide differences in service between districts.
- ***partial local autonomy***. School boards have some ability to respond to local needs and to allow for the possibility of innovation at the local level and "lighthouse" programs within districts.
- ***limited flexibility***. Boards have some financial resources with which to respond to perceived inadequacies in provincial funding.
- ***separation of accountability for school tax decisions***. Only the province is responsible for levying non-residential school taxes. Only school boards are responsible for levying residential school taxes. However, both share the property tax field with local governments.

OPTION 4: PROVINCIAL FUNDING WITHOUT PROPERTY TAXES

Option 4 eliminates the use of property taxes for school purposes. The provincial government provides all the funding for schools by increasing other provincial taxes (e.g. income taxes and sales taxes). School boards have no taxing powers but are responsible for managing schools. This Option is similar to Option 1 with the addition that the province does not use property tax to fund education. The characteristics of Option 4 are:

- ***an emphasis on fairness in service***. Wherever they live in the province, regardless of the wealth of the school district, students have access to a similar level of education.
- ***clear accountability for property tax decisions***. Local governments are the primary users of the property tax base.
- ***restrictions on local autonomy***. Without access to local taxes, school boards have limited ability to respond to the needs and desires of their students and constituents.
- ***minimal flexibility***. School boards have no independent source of revenue to correct for perceived inadequacies in provincial funding.
- ***questions about the fairness of taxation***. Elimination of property taxes for schools would be accompanied by substantial increases in other taxes. The overall effect would be a major shift in the tax burden between individuals across the province. Not all taxpayers will see the changes as fair.

APPENDIX 1

EDUCATION FUNDING REVIEW PANEL

Peter Adams
Economic Consultant

Graham McKinnon
Associate Executive Director, B.C. School Trustees Association (on leave)

Enid Slack
Economic Consultant

Cindy Spangelo
Chair, Public Policy Consultant

EDUCATION FUNDING REVIEW ADVISORY COMMITTEE

Susan Anderson/David Rice
British Columbia Federation of Labour

Joan Axford
Ministry of Education and Ministry Responsible for Multiculturalism and Human Rights

Steve Barnett
British Columbia School District Secretary Treasurers' Association

Moyra Baxter
British Columbia Confederation of Parent Advisory Councils

Stanley French
British Columbia Principals and Vice-Principals Association

Keith Gray
Business Council of British Columbia

Doug Jennings
British Columbia School Superintendents' Association

John Kula/Rob Bennett
Ministry of Finance and Corporate Relations

Mavis Lowry
British Columbia Teachers' Federation

Blair Redlin/Colleen Jordan
Canadian Union of Public Employees

Richard Taylor
Union of British Columbia Municipalities

Jacquie Tegart
British Columbia School Trustees Association

Dale Wall/Al Tamblin
Ministry of Municipal Affairs, Recreation and Housing

EDUCATION FUNDING REVIEW COMMITTEE OF ELECTED OFFICIALS

Honourable Robin Blencoe
Minster of Municipal Affairs, Recreation and Housing

Honourable Glen Clark
Minister of Finance and Corporate Relations

Jack Finnbogason
President, B.C. School Trustees Association

Honourable Anita Hagen
Minister of Education and Minister Responsible for Multiculturalism and Human Rights

Mayor Joyce Harder
President, Union of British Columbia Municipalities

APPENDIX 2

SCHEDULE OF REGIONAL MEETINGS

Prince George	September 30 7:00 - 10:00 p.m.	The Coast Inn of the North 770 Brunswick Street
Kelowna	October 5 7:00 - 10:00 p.m.	Coast Royal Anne 348 Bernard Avenue
Vancouver	October 6 7:00 - 10:00 p.m.	Simon Fraser (Harbour Centre) 515 West Hastings Street
Cranbrook	October 8 7:00 - 10:00 p.m.	Inn of the South 803 Cranbrook Street North
Surrey	October 13 7:00 - 10:00 p.m.	Cargill Manor 3550 King George Highway
Kamloops	October 14 7:00 - 10:00 p.m.	The Dome Motor Inn 555 West Columbia Street
Victoria	October 19 7:00 - 10:00 p.m.	The Coast Victoria Harbourside Hotel 146 Kingston Street